

News

ARIZONA Department of Revenue

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ABUSIVE TAX SHELTER PROMOTERS AND INVESTORS TARGETED

Today, the Arizona Department of Revenue (DOR) announced the Voluntary Compliance Initiative (VCI) to provide taxpayers that have participated in abusive tax shelters an opportunity to voluntarily come forward. Nearly 2000 Arizona taxpayers will be hearing from DOR this month due to their participation in "listed transactions." Listed transactions are tax shelters designated by the Internal Revenue Service (IRS) as abusive tax avoidance transactions (ATATs). Through various Exchange of Information agreements, DOR has received numerous leads from the IRS and other states. These leads go back to tax years as early as 1997 because, under Arizona law, these years remain open for audit as long as there is a federal audit. The State will be mailing letters to these taxpayers and developing additional leads throughout the year.

Abusive tax shelters shift the tax burden to other taxpayers. National studies have estimated that Arizona loses at least \$61

million annually because of abusive tax shelter schemes. These tax shelters became popular in the mid-1990s with an increasing number of taxpayers participating according to the IRS. ATATs are abusive tax shelters that create inflated deductions and artificial losses that are used to avoid paying taxes. The transactions typically have no purpose other than reducing taxes, and most involve the use of multiple layers of pass-through entities, both domestic and foreign, to create a confusing paper trail.

To respond to the increasing use of abusive tax shelters, DOR created a new enforcement unit in the Audit Division. DOR has joined forces with IRS to collectively attack the growing problem of abusive tax avoidance schemes being used to avoid Arizona and federal income tax liability.

Arizona is also working with the Federation of Tax Administrators under an agreement that allows participating states to share a common database, audit techniques, strategies and guidelines developed specifically for abusive tax schemes.

"Arizona has zero tolerance for taxpayers that avoid Arizona income tax through abusive tax shelters," declared DOR Director Elliott Hibbs, "and we will do everything possible to recover Arizona taxes legally owed but not paid. Businesses and individuals who use abusive tax shelters cause honest citizens to pay more than their fair share of taxes or to have to forego critical services."

Taxpayers, especially those already identified by IRS, who have utilized any abusive tax shelters to avoid Arizona income tax liabilities are strongly encouraged to voluntarily participate in the

VCI. Arizona law requires taxpayers to report any changes to their federal taxable income to the state within ninety (90) days.

In cases where DOR determines that a taxpayer employed an abusive tax shelter, the penalties could range up to seventy-five percent of the additional tax due. The penalties could include additional amounts for negligence, late payment and civil fraud. To participate in the VCI, a Form AZ-VCI must be submitted to DOR by April 1, 2005, and participants must pay the additional tax and interest on or before May 13, 2005.

"I strongly urge taxpayers to do the right thing and take advantage of the VCI," Hibbs recommended. "The potential savings in penalties is significant. If we have to find you, don't expect leniency."

Please visit our website at www.AZDOR.gov/ATATProgram/menu.htm to obtain the AZ-VCI form, instructions, and available VCI options. Or, you can contact the Tax Shelter Unit by mail at Arizona Department of Revenue, Attn: Tax Shelter Unit, P.O. Box 52153, Phoenix, Arizona 85072-52153 or by calling (602) 716-6450.

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